

January 5, 2001

M-01-06

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND
ESTABLISHMENTS

FROM: Joshua Gotbaum
Executive Associate Director and Controller

SUBJECT: Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing
and Tuition Remission Costs

This memorandum clarifies the treatment of voluntary uncommitted cost sharing effort and tuition remission costs in accordance with OMB Circular A-21, "Cost Principles for Educational Institutions." This clarification is consistent with the recommendation by the National Science and Technology Council (NSTC) to improve the Government-university research partnership.

In two separate sections below, this memorandum discusses the purpose of the clarification, the background, the related issue, and the clarification for the treatment of voluntary uncommitted cost sharing and tuition remission costs in accordance with OMB Circular A-21.

Voluntary Uncommitted Cost Sharing

Purpose. This memorandum clarifies the treatment of voluntary uncommitted cost sharing effort in the computation of facilities and administrative (F&A) rates in accordance with OMB Circular A-21. Voluntary uncommitted cost sharing effort is defined, for the purpose of this memorandum, as university faculty (including senior researchers) effort that is over and above that which is committed and budgeted for in a sponsored agreement.

Background. Circular A-21, section C.4, "Allocable Costs," states that "a cost is allocable to a particular objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship." Most faculty organized research effort is either charged directly to the sponsor, or is considered mandatory or voluntary committed cost sharing (i.e., cost sharing specifically pledged in the proposal's budget or award) on the part of the recipient. Both mandatory and voluntary committed cost sharings are consistent with the terms and conditions of a sponsored agreement and captured in the accounting system. Voluntary uncommitted cost sharing effort, on the other hand, is faculty-donated additional time above that agreed to as part of the award.

Mandatory and voluntary committed cost sharing must be properly documented for cost accounting purposes. In addition, current Circular A-21 provisions require that, for research projects that are funded by both the Federal Government and a private third party (e.g., a corporation), the faculty should properly document through reporting its compensated effort, including mandatory and voluntary committed effort in order to allocate salaries and associated F&A costs.

Issue. Recently adopted Cost Accounting Standards in Circular A-21 have been interpreted by some Federal Government officials to require the assignment of a proportionate share of F&A costs to the voluntary uncommitted cost sharing effort by either including an estimated amount in the organized research base or by adjusting the allocation of facility costs related to this effort.

The reporting burdens on universities and their faculty associated with detailed recording of voluntary uncommitted cost sharing may be providing a disincentive for the universities to contribute additional time to the research effort. In addition, the imprecise nature of the data concerning the amount of voluntary uncommitted cost sharing has made it difficult to compute and use as part of rate negotiations between the Federal Government and the universities.

Clarification. Voluntary uncommitted cost sharing should be treated differently from committed effort and should not be included in the organized research base for computing the F&A rate or reflected in any allocation of F&A costs. Furthermore, such faculty effort is excluded from the effort reporting requirement in section J.8. This treatment is consistent with the guidance in section J.8.b (1).c, "Payroll Distribution," that a precise documentation of faculty effort is not always feasible, nor is it expected, because of the inextricably intermingled functions performed by the faculty in an academic setting (i.e., teaching, research, service and administration).

Although voluntary uncommitted cost sharing will no longer be included in the organized research base, it should be noted that current A-21 provisions for payroll distribution (section J.8.b) require that the apportionment of salaries and wages must be supported by a payroll distribution system that "will encompass both the sponsored and all other activities on an integrated basis." The process must also identify significant changes in the corresponding work activity. As such, when an institution reduces a faculty member's level of activities dedicated to other institutional responsibilities in order to shift his/her activities to organized research activities, the institution must reflect this reduction in the payroll distribution system (as an increase to the research effort component) and in the F&A proposals.

In addition, most Federally-funded research programs should have some level of committed faculty (or senior researchers) effort, paid or unpaid by the Federal Government. This effort can be provided at any time within the fiscal year (summer months, academic year, or both). Such committed faculty effort shall not be excluded from the organized research base by declaring it to be voluntary uncommitted cost sharing. If a research sponsored agreement shows no faculty (or senior researchers) effort, paid or unpaid by the Federal Government, an estimated amount must be computed by the university and included in the organized research base. However, some types of research programs, such as programs for equipment and

instrumentation, doctoral dissertations, and student augmentation, do not require committed faculty effort, paid or unpaid by the Federal Government, and consequently would not be subject to such an adjustment.

In the future, OMB and the research agencies will evaluate the impact on committed cost sharing of this clarification memorandum.

This interpretation of the treatment of voluntary uncommitted cost sharing is applicable prospectively to future sponsored agreements and future F&A proposal submissions. It does not require adjustments for current sponsored agreements or affect the negotiated rates that were agreed upon by the Federal Government and the universities based on previous F&A submissions. F&A rates negotiated prior to this clarification will not be renegotiated, nor will this clarification affect the calculation of prior years' carry-forward amounts.

Tuition Remission Costs

Purpose: This memorandum provides a clarification for the tuition remission costs of graduate students charged to Federal programs in accordance with OMB Circular A-21, Section J.41, "Scholarships and Student Aid Costs," and Section A.2.c. "Purpose and Scope." Specifically, it clarifies that the Circular's requirement for a "bona fide employer-employee" relationship does not mean that the tuition remission costs are allowable only if the graduate student is treated as an employee for the purposes of the Internal Revenue Code and the Internal Revenue Service (IRS) regulations.

Background: OMB Circular A-21, Section A.2.c, "Purpose and Scope," states: "the dual role of students engaged in research and the resulting benefits to sponsored agreements are fundamental to the research effort and shall be recognized in the application of these principles." Section J.41, "Scholarships and Student Aid Costs," states that tuition remission costs for students are allowable on sponsored awards provided that "there is a bona fide employer-employee relationship between the student and the institution..." This statement has been interpreted incorrectly by some Federal Government officials to mean that, for tuition remission costs to be allowable, students must be treated as employees of the university, for tax purposes, which would mean that students' tuition remission benefits must be treated as taxable wages. This misunderstanding has recently generated a considerable amount of concern from universities and Federal research agencies. A clarification of the "employer-employee relationship" condition is necessary to correct this misunderstanding about the relationship between Circular A-21 guidelines and the IRS regulations.

Issue: The Federal policy on support of graduate students participating in research projects is to provide a reasonable amount of support (tuition remission and other support) on the basis of the individual's participation in the project. Sponsoring agencies are supporting graduate students who fulfill a vital role both as students and as researchers. This policy is not contingent on there being an employer-employee relationship, for tax purposes, between the institution and the graduate student. Rather, it recognizes the reality that research activities are an essential component of the individual's educational activities.

Clarification: OMB in the Circular did not intend to tie the allowability of tuition remission costs to how they are treated for tax purposes. However, given the misunderstanding that has arisen, a clarification is needed. In recognition of the dual role of students (as both students and researchers) engaged in research and the resulting benefits to sponsored agreements (as recognized in Section A.2.c of OMB Circular A-21) and research overall, tuition remission and other forms of reasonable support that are associated with student status and provided to individuals participating in the necessary work of a sponsored agreement are allowable provided that:

- (1) The individual is conducting activities necessary to the sponsored agreement;
- (2) Tuition remission and other support are provided in accordance with established educational institutional policy and consistently provided in a like manner to students in return for similar activities conducted in nonsponsored as well as sponsored activities; and
- (3) During the academic period, the student is enrolled in an advanced degree program at a grantee or affiliated institution and the activities of the student in relation to the Federally-sponsored research project are related to the degree program.

Accordingly, tuition remission and other forms of support that satisfy these criteria are allowable, regardless of whether the tuition remission or other form of support qualifies as wages for tax purposes.

Tuition remission and other student support shall be subject to the reporting requirements stipulated in Section J.8, "Compensation for Personal Services," of OMB Circular A-21, or an equivalent method for documenting the individual's effort on a research project. Tuition remission may be charged on an average basis. In addition, as applicable with other types of costs charged against Federal research projects, total graduate student compensation must still meet Circular A-21 criteria for reasonableness and allowability.

Please contact Gilbert Tran, Office of Federal Financial Management, telephone (202) 395-3052, for any questions regarding this Memorandum.